MASARYK UNIVERSITY

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Finance basis

Topic

Access finance Africa

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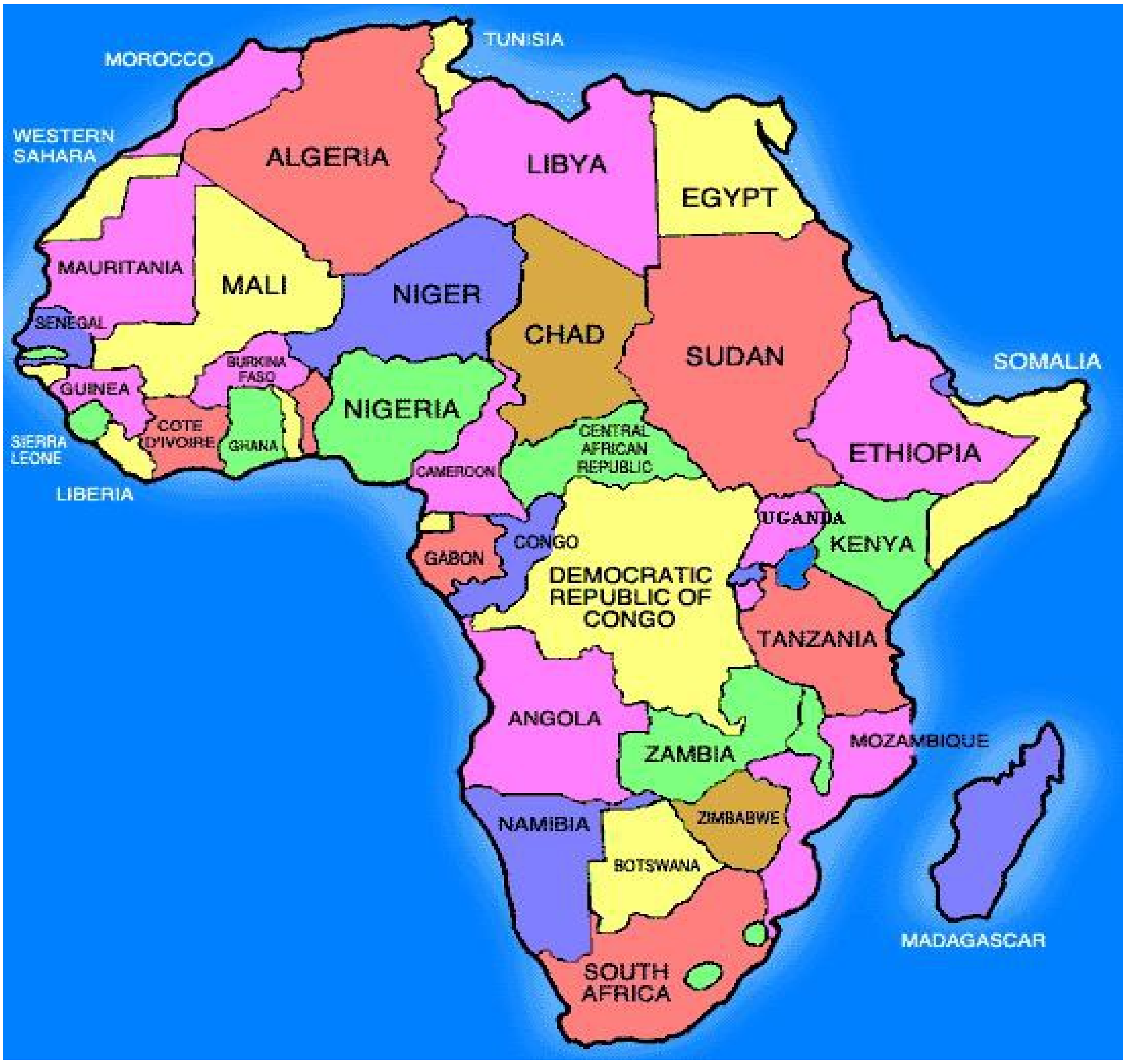
Access to finance

Definition: it refers to the availability of financial services – in the form of deposits, credit, payments, or insurance – to individuals or enterprises.

The availability of such services can be constrained for instance by physical access, affordability or eligibility.

Africa:



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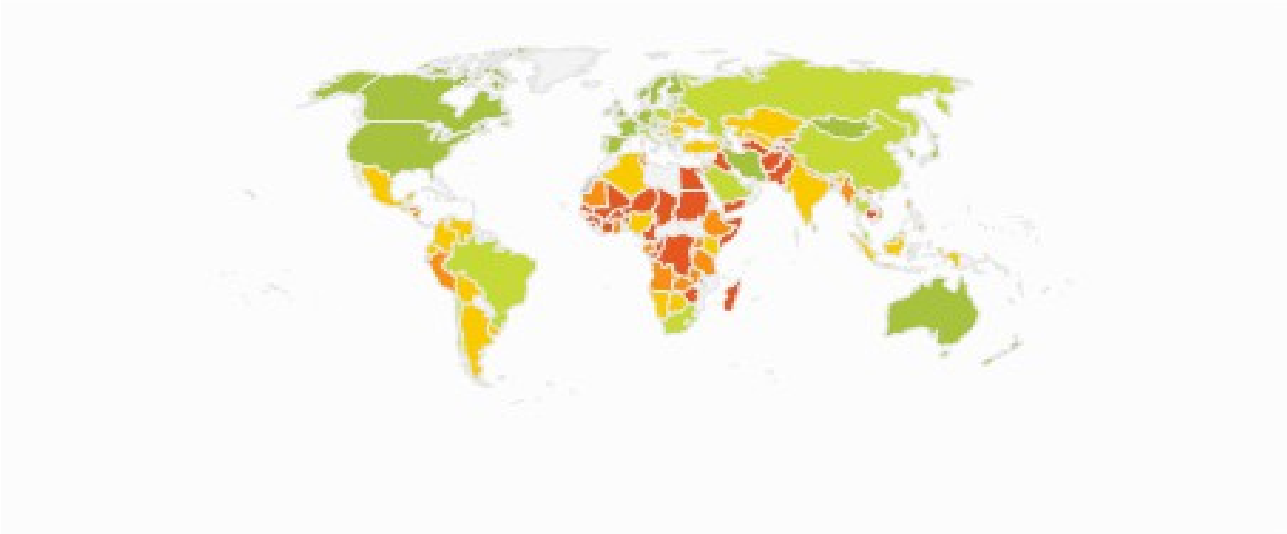
Africa is now the world's second fastest growing region after Asia, with annual GDP growth rates in excess of 5% over the last decade. Despite this growth, the "Arab Spring" events showed that good economic growth in the continent had not translated into shared prosperity and better livelihoods for the majority.

Access to finance, is an area in which Africa has been lagging behind other continents.

Less than a quarter of adults in Africa have access to formal financial services. Lacking a financial infrastructure that includes a place to save money securely, safe and efficient means of transferring money, and access to credit and insurance, the majority of people on the continent are often barred from making productive investments in their families and businesses.

In general terms, half the world is unbanked, but the highest percentage of unbanked persons is found in Africa.



Comments:
Indicator: Account at a financial institution (% age 15+) [ts]
Year: 2014

No Data | 0 - 17.7 | 17.7 - 35.9 | 35.9 - 62.9 | 62.9 - 87.5 | 87.5 - 100

Micro Retail

Typically, four aspects of access to finance can be distinguished: Informal finance, microfinance, finance for small and medium enterprises (SMEs) and mobile banking.

All are aimed at increasing access to a diverse range of financial services for the poor.

Microfinance:

Microfinance refers to the provision of financial services to low-income individuals for building assets, guarding against risks, or stabilizing consumption. Microfinance encompasses a spectrum of services that range from the provision of micro loans to support productive activity or self-employment, to savings schemes, to money transfers to economic players who would otherwise have no access to financial services.

A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients.

From 2006 to 2007, MFIs in Africa experienced an increase of 25 percent in borrowers and 31 percent in savers, reaching about 5.2 million borrowers and more than 9 million savers on the continent.

In North Africa, data was only available for Egypt and Morocco because of the limited number of MFIs in the other countries. For these two countries, growth in the number of borrowers was of over 30 percent for both, while the growth of the loan portfolio amounted to above 30 percent and 60 percent, respectively.

Differences remain in rates of penetration of microfinance services across the continent: West Africa shows the highest, with five out of the ten countries with the highest penetration rates for both savers and borrowers. Microfinance services have experienced the highest growth in penetration in Eastern and Southern Africa, and the lowest in Central Africa.

Although microfinance has still low penetration rates in Africa compared to other world regions, it is growing rapidly. From 2006 to 2007, MFIs in Africa experienced an increase of 25 percent in borrowers and 31 percent in savers, reaching about 5.2 million borrowers and more than 9 million savers on the continent.

Mobil banking:

Mobile banking refers to the use of mobile phones for transferring money and accessing other banking services, such as balance inquiries. About four in ten Africans have a mobile phone and increasing numbers are using them for financial transactions.

Progress in mobile communications technology and encryption systems has changed the economics of financial service provision, particularly in remote areas, rapidly expanding the number of people able to access these services.

While uncertainties remain over some of the implications of using mobile banking services – ranging from regulatory approaches, security concerns, the lack of human interfaces, to the difficulty of complying with Know Your Customer (KYC) rules – the retail network, speed of service, and affordability of mobile banking transactions holds a tremendous potential to expanding access to the formally financially excluded.

The mobile financial services program uses agent banking models and mobile technology to assist various types of institutions (mobile network operators, banks, microfinance institutions, payments system providers) increase scale and reach customers that were previously unbanked.

The M-Pesa example: M-Pesa, a mobile phone-based money transfers and micro-financing service launched in Kenya by Vodafone in 2007.

Upwards of 75 percent of Kenya’s adult population now use M-Pesa to process payments for a range of goods and services.

The International Monetary Fund, in its 2014 Financial Access Survey (FAS), reported a dramatic increase in the number of active mobile money accounts in Kenya. The number of mobile money transactions increased by more than 130 times, from 5.5 million in 2007 to more than 700 million in 2013. This statistic is not surprising given the incredible uptake of M-Pesa. Followed now by Orange from France.

Despite the growth of mobile money, the level of financial inclusion in East Africa remains generally low. In the continent's rural communities, where most of the financially excluded reside, access to formal financial services, usage of financial tools and presence of mobile infrastructure are still a concern.

Micro insurance:

Micro-insurance provides protection against specific perils to low-income groups.

The International Association of Insurance Supervisors (IAIS) defines micro insurance as "insurance that is accessed by the low-income population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices.

Illness or death are the prime concerns for many who take out micro-insurance in Africa.

The South African insurer recently launched a micro insurance funeral product for the Ghanaian market which relies on cover being sold and policy details accessed via mobile handsets. The initial takes up of this product was relatively slow due to the scale of distribution, but since increasing capacity on the ground, the insurer has achieved volumes that exceed its initial expectations.

Similar success has been recorded in Zambia where **Hollard** launched an initiative to sell insurance through a mobile network partner. The customer accesses the product directly through their mobile handset and pays the premium via mobile money deductions, the same approach with Botswana where insurance product is distributed through 122 Post Office branches and various retail partners across the country.

Informal finance:

Informal finance is a broad concept that encompasses the wide range of financial activities and services that take place beyond the scope of a country's formalized financial institutions and lie outside financial sector regulations. Informal finance is common in both urban and rural contexts and is usually based on personal relationships and socioeconomic proximity.

Some African products initiatives of informal finance:

1. Susu: The name may come from the West African Igbo or Yoruba word isusu or esusu which is translated as a pooling

the funds, susu or esusu collectors provide access to credit as well as the possibility to save and withdraw money for a small fee. In the susu arrangement, a saver agrees to deposit a specific amount determined in consultation with the collector for an agreed period of time (usually a month). At the end of the period, the susu collector renders the accumulated savings to the client, keeping one day's savings as commission.

2. Tontines: Tontines another prominent means to pool resources, whereby a group of individuals agree to regularly pay small amounts into a common fund - the tontine – which is then loaned for a month, without interest, to one of the members.
3. Hawala: which means "transfer" or "wire" in Arabic banking jargon, it is a traditional means of transferring funds across borders and within countries, whereby funds are transferred by means of a network of hawala brokers (hawaladars) who charge a fee or an exchange rate spread in exchange for their services.
4. Stokvel: a common group saving scheme in South Africa, is similar to the Tontines schemes: members meet monthly and deposit a certain amount of money into a common fund. The accumulated amount is then paid out to one of the members on a rotating basis. The First National Bank in South Africa offers special stokvel bank accounts for group savings, about 15 percent of the population is member of a stokvel.

WHY IS ACCESS TO FINANCE SO IMPORTANT TO AFRICA?

Access to finance is critical to unlocking Africa's great growth potential, and to make sure economic growth is enjoyed by all.

Lack of access to finance is a key constraint on the growth of small and medium enterprises in Africa, and thus also an important limitation on employment, economic growth and shared prosperity.

Lowering these barriers to access and offering suitable financial products can allow households and small businesses to maximize the leverage of their savings or earnings for increased productivity, contributing to higher incomes, job-creation and, ultimately, growth.

Broadening access to financial services will mobilize greater household savings, marshal capital for investment, expand the class of entrepreneurs, and enable more people to invest in themselves and their families.

STRATEGIES FOR A BETTER FUTURE

African governments have increasingly been focusing on the access of microfinance into the formal financial system, by either extending banking and non-banking financial legislation or issuing microfinance-specific laws and regulations. Since 2002, in Africa, thirty-one countries have passed or revised microfinance legislation, while twenty-four countries have adopted national microfinance strategies. Therefore, Government commitment and involvement is key.

Partnership for Access to finance Launched: The aim of the Partnership for Financial Inclusion, a joint program with The MasterCard Foundation and supported by the Development Bank of Austria, is to scale up 8-10 of IFC's (International financial corporation: a world bank group) strongest microfinance clients on the continent and accelerate the development of mobile financial services to reach 5.3 million previously unbanked customers by 2017.

There are still work to be done to reduce the level of unbanked persons. This includes taking advantage of the technological advances in developing financial infrastructure to lower transaction costs, encouraging transparency, openness and competition, to incentivize current institutions to expand service coverage.

More opportunities to invest in Africa.

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World bank Group/International finance corporation